

City of Saint Paul Minnesota

Comprehensive Annual Financial Report
For the Fiscal Year Ended
December 31, 2005



Office of Financial Services
Matt Smith, Director

City of Saint Paul

Comprehensive Annual Financial Report For the Fiscal Year Ended December 31, 2005

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CITY OF SAINT PAUL
COMPREHENSIVE ANNUAL FINANCIAL REPORT

INTRODUCTORY SECTION

Office of the Mayor
Office of Financial Services

Matt Smith, Director



City of Saint Paul

Mayor Christopher B. Coleman

*700 City Hall
15 West Kellogg Boulevard
Saint Paul, Minnesota 55102-1658*

*Telephone: (651) 266-8800
Facsimile: (651) 266-8541*

June 30, 2006

To the Honorable Mayor, Members of the City Council, and Citizens of Saint Paul:

The City of Saint Paul's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2005 is hereby submitted. The purpose of this report is to provide the Mayor, City Council, City Staff, citizens, bondholders and other interested parties with useful information concerning the City's operations and financial position. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the City.

The CAFR is presented in three main sections:

1. Introductory Section - includes this transmittal letter, the City's organizational chart and a list of principal officials.
2. Financial Section - includes the independent auditor's report, Management's Discussion and Analysis (MD&A), the basic financial statements, notes to the financial statements and supplementary information.
3. Statistical Section - contains selected financial and demographic information presented on a multi-year basis.

Generally Accepted Accounting Principles (GAAP) require that the City provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Saint Paul's MD&A can be found immediately following the report of the independent auditors.

INTERNAL CONTROL

To provide a reasonable basis for making these representations, the City of Saint Paul has established a comprehensive internal control framework that is designed to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Saint Paul's financial statements in conformity with Generally Accepted Accounting Principles. Because the cost of internal controls should not outweigh their benefits, the City of Saint Paul's comprehensive framework of internal controls has been designed to provide a reasonable, rather than absolute, assurance that the financial statements will be free from material misstatement. All internal control evaluations occur within this framework. To the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

INDEPENDENT AUDIT

State law requires the State Auditor to perform an annual audit of the City and other cities of the first class in Minnesota. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Saint Paul for the fiscal year ended December 30, 2005 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the City, and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Saint Paul's financial statements for the fiscal year ended December 31, 2005 are fairly presented in conformity with GAAP. The State Auditor's report is presented as the first component of the financial section of this report. As part of their examination, the State Auditor is also issuing a Management and Compliance letter covering the review of the City's system of internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The Management and Compliance letter will not modify or affect, in any way, this report.

The City is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Information related to this single audit including the schedule of expenditures of federal awards, findings and recommendations, and auditor's reports on internal control over financial reporting and tests of compliance with certain provisions of laws, regulations, contracts and grants will be included in the State Auditor's separately-issued Management and Compliance letter.

PROFILE OF THE GOVERNMENT

The City of Saint Paul has been a municipal corporation since 1854. Saint Paul is the state capital and Minnesota's second largest city. The City covers an area of 56 square miles and is situated wholly in Ramsey County. Saint Paul's 2004 population, per the Metropolitan Council, is 287,410. Data recorded by the Metropolitan Council indicates that the number of households in the City has remained relatively stable, and is 112,668 for 2004, a 2.2% increase from 1990.

The City of Saint Paul, Minnesota has a Mayor-Council form of government. The Mayor is elected by the voters of the City at large for four years on a full-time basis. The City is divided into seven wards. Voters of each ward elect a member of the City Council for four years on a part-time basis. Executive power is vested in the Mayor; legislative power is vested in the Council. The Mayor has veto power, which the Council may override with a vote of five members.

City services include: police, fire, street, sewer and bridge maintenance, parks and recreation centers, libraries, licensing, building and housing code inspections, planning and economic development, zoning, public improvements and general administration.

REPORTING ENTITY

The City's financial statements include all funds of the City (primary government) and its component units. The primary government represents all funds under the ultimate control of the Mayor and City Council. The Library Agency and Housing and Redevelopment Authority (HRA) are legally separate; however they both function in essence as a department of the City of Saint Paul and, therefore, have been included as an integral part of the City of Saint Paul's financial statements. The City of Saint Paul is also financially accountable for the legally separate Saint Paul RiverCentre Convention & Visitors Authority, Saint Paul Regional Water Services and the Port Authority of the City of Saint Paul, all of which are reported separately as component units within the City of Saint Paul's financial statements. The nature of the activities of these organizations and the specific justification and methods for inclusion as component units of the City are discussed in the notes to the financial statements.

BUDGET CONTROL

The annual budget serves as a foundation for the City of Saint Paul's financial planning and control. In August of each year, the Mayor presents the budget to the City Council for the following calendar year. The budget includes proposed expenditures and means of financing them. The Council then holds a public hearing to obtain taxpayer comments. The budget is legally adopted through the passage of a Council resolution.

City budget amendments that authorize an increase in total fund spending require approval of the City Council. In addition, City Council approval is required for budget amendments transferring appropriations between departments within the General Fund.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, Library Agency and the HRA General Fund, this is presented on pages 139-141 as part of the required supplementary comparison information. For other governmental funds with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 148.

ECONOMIC OUTLOOK

Saint Paul is an important part of the overall strong Twin Cities metro area economy, and is poised for solid growth as the national economic recovery continues.

Saint Paul compares favorably when ranked among the 20 largest northeast and Midwest cities on certain economic and social factors¹.

- 2nd lowest in unemployment rate
- 2nd lowest in percent of people below poverty level (13.9%)
- 3rd highest in percent of population over 25 years with a bachelor's degree (33.6%)
- 6th highest in percent of housing that is owner occupied (55%)
- 6th highest in median value of owner-occupied houses (\$173,204)
- 8th highest in median household income (\$38,731)

Over the years, Saint Paul has consistently registered a lower unemployment rate than that of the U.S. as a whole. For 2005, the City's 4.4% unemployment rate was lower than the U.S. rate of 5.1%. Saint Paul's employment is spread among twelve "super-sectors," with the largest employers being education and health services (48,640 jobs in 2004; 28% of total). The average annual wage in 2005 was \$43,784.

Similarly, tax base growth has been strong and sustained: From Pay 2002 to Pay 2006, Saint Paul's taxable market values have increased 65%. Relatively high incomes and moderate housing costs combine to rank Saint Paul comparatively high in overall housing affordability.

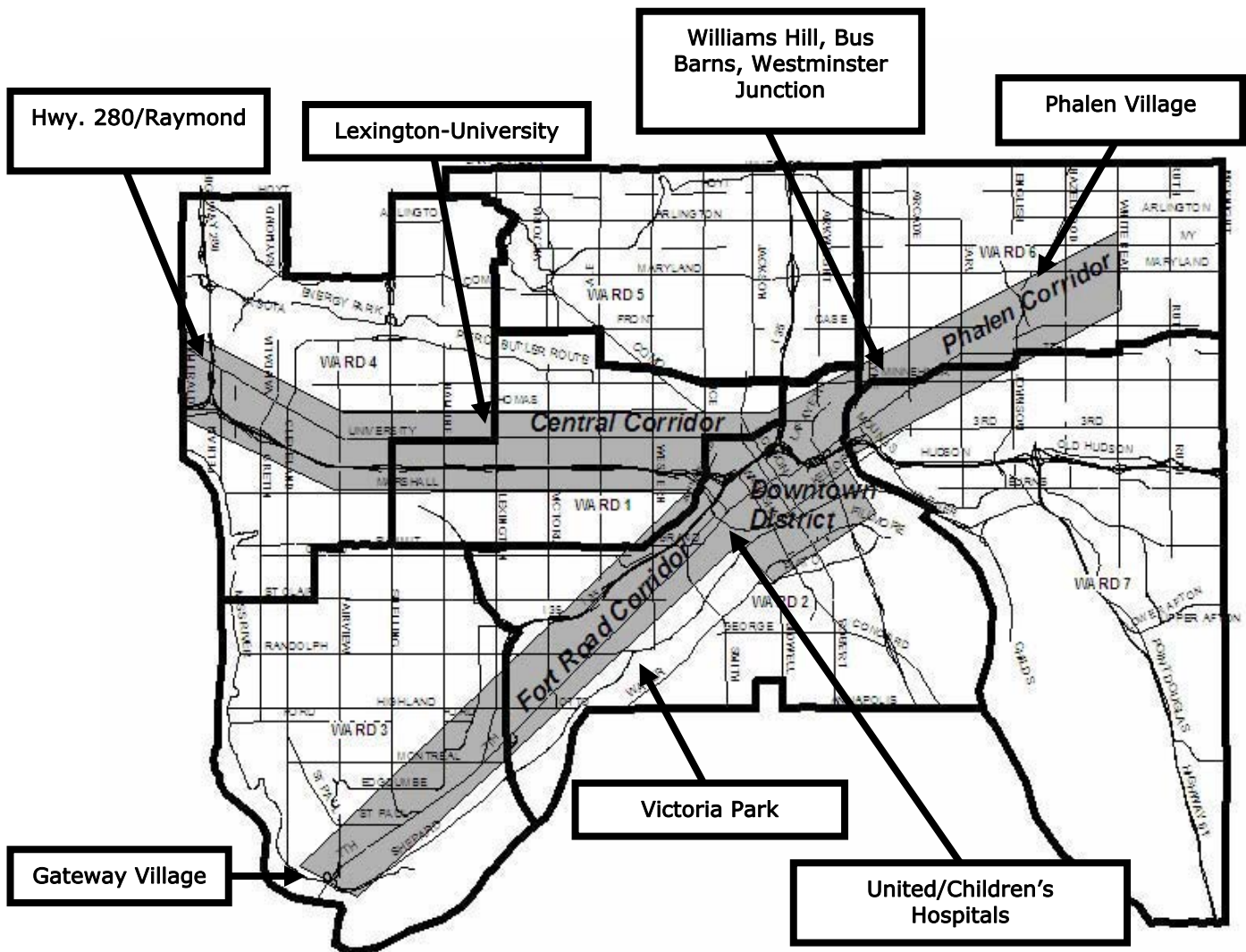
¹ The cities are Baltimore, Boston, Buffalo, Chicago, Cincinnati, Cleveland, Columbus, Detroit, Indianapolis, Kansas City, Milwaukee, Minneapolis, New York, Newark, Omaha, Philadelphia, Pittsburgh, St. Louis and Toledo.

MAJOR INITIATIVES

Economic Development

To maintain this economic growth, the City will continue to develop and implement strategic plans to encourage private investment in housing and economic development projects in Saint Paul, the results of which can be seen below.

- **Citywide housing development:** Four years ago, with vacancy rates hovering around 1%, the City established the *Housing 5000 Program* to accelerate housing development. The ambitious goal was the closing on the financing for 5,000 units of new and substantially rehabilitated housing by the end of 2005, 1,000 of which would be affordable. When the *Program* ended, it had closed on the financing for 5,370 new and substantially rehabilitated units and closed on the financing for 1,173 affordable units.
- **Phalen Corridor revitalization:** The formerly-blighted Phalen Corridor, which runs northeast from downtown to the Phalen Village neighborhood, has been transformed. The last section of the new 2.5-mile, \$61 million Phalen Boulevard opened last fall, connecting the East Side directly to Interstate 35E. At Phalen Village on the east end, more than 1,000 units of housing have been developed or rehabilitated, a failed shopping center has been demolished, commercial uses have been repositioned onto Maryland Avenue, and a \$60 million building for the State Bureau of Criminal Apprehension has been built. At Williams Hill on the west end, the Williams Hill Business Center, the Metro Transit bus barns and Westminster Junction Business Center have been developed, which together have almost 1,500 new jobs. With most of the blighting influences in the Phalen Corridor removed, hundreds of units of new ownership and rental housing are being built in the adjacent neighborhoods.
- **Central Corridor revitalization:** The Central Corridor, running along University Avenue from the State Capitol to Minneapolis, has attracted significant investment in the past few years, and stands to attract more in the future if Light Rail Transit (LRT) is developed on University Avenue in the next few years. At the western edge of the Central Corridor, 575 units of new housing have been built or are being developed, and Saint Paul's state-designated Bioscience Zone is operating, the centerpiece of which is the \$24 million, 125,000 square foot, state-of-the-art bioscience incubator operated by University Enterprise Laboratories. Just to the east of Highway 280, construction has started on the Carleton Place Lofts, with 169 units of rental housing being developed out of three vacant warehouses. At the southwest corner of Fairview and University, Episcopal Homes has developed two new senior housing buildings. The southwest corner of Lexington and University is being redeveloped for commercial and residential uses, with Aldi's grocery and TCF Bank now open and the Wilder Foundation headquarters and Episcopal Homes senior housing on the drawing boards. At the southwest corner of Dale and University, a \$24 million, four-story, mixed use project with the Rondo Library on the first floor and 98 affordable residential rental units above, will open this summer.
- **Fort Road:** Running southwest from downtown to Fort Snelling, Fort Road has seen significant development in the past few years. At Gateway Village across from Fort Snelling, 578 units of new rental and ownership housing have been developed. To the east at Victoria Park, 245 housing units for all incomes and life cycles will be built on the bluffs overlooking the Mississippi River. At the western edge of the downtown, United and Children's Hospitals are nearing the end of their decade-long \$41 million expansion, which has already added most of the projected 800 jobs to the existing base of 3,000 medical workers.
- **The Central Business District:** The downtown extends from the State Capitol campus on the north to the West Side Flats across the river. RiverCentre opened in 1998, the Xcel Hockey Arena opened in 2000, and the RiverCentre tunnel, which links both of them to the skyway system and downtown hotels, opened in 2002. Important headquarters companies have expanded downtown, including the Saint Paul Companies, Minnesota Mutual and Ecolab. In 2003, US Bancorp moved its downtown employees into a new 350,000 square foot. back office operations center across the river. In 2005, the State of Minnesota completed two new downtown office buildings adjacent to Interstate 94. The north edge of downtown has grown into a cultural district with the McNally-Smith Music College, a new Minnesota Public Radio building, the Fitzgerald Theater and the Minnesota Business Academy, all within a block of Fitzgerald Park. Since 2002, about 1,400 new housing units have been, and are being developed in new and rehabilitated buildings in four downtown neighborhoods: Lowertown, the North Quadrant, the Upper Landing and the West Side Flats. Some of these units have been in obsolete office buildings converted into apartments and condominiums, which has helped reduce the amount of uncompetitive Class C office space.



CASH AND INVESTMENT MANAGEMENT

Cash balances during the year were invested in U.S. Treasuries, Agencies of the Federal Government, commercial paper, certificates of deposit, municipal securities, money market funds and guaranteed investment contracts, in accordance with Minnesota State Statute 118A and the City's Investment Policy. A new investment policy was adopted by the City Council in July 2003 to improve management of the City's investment portfolio. The investment policy's goal is to preserve safety by minimizing credit and market risks, while ensuring liquidity and maintaining a competitive yield on the portfolio.

The City has contracted investment management services with five external managers to manage a portion of the portfolio. As of December 31, 2005, the effective yield on the portfolio was 4.61% and reported interest on investments was \$8.9 million. All securities purchased by the City are held by a third party safekeeping agent in the City's name.

DEBT MANAGEMENT

The City of Saint Paul partners with Ramsey County and Independent School District #625 (Saint Paul Public Schools) as members of the Joint Property Tax Advisory Committee (JPTAC). The JPTAC, created by Minnesota law, is charged with the obligation to reduce the overall tax burden on the citizens of Saint Paul. The Joint Debt Advisory Committee (JDAC), a subcommittee of JPTAC, is charged with overseeing and reporting to the public on joint debt activities. This group evaluates compliance by the jurisdictions within the adopted target ranges for satisfactory debt management and releases its findings in the Joint Debt Book, which is published every two years. The 2005 Joint Debt Report is currently under production and will be released later this year.

The City maintained its AAA bond rating from Standard & Poor's and Aa2 bond rating from Moody's due to strong management and financial performance. In addition to the interest cost savings from having a high bond rating, the City took advantage of low interest rates to refund the 1996 Recreational Facilities Gross Revenue Bonds and the 1995 General Obligation Taxable Tax Increment Bonds, resulting in net present value benefits of \$246,971 and \$977,430, respectively.

The City also entered into its first interest rate swap agreement as a debt management tool to lower interest rate costs on the 1999 Sales Tax Revenue Bonds, with estimated savings of approximately \$500,000 per year beginning in 2009.

RISK MANAGEMENT

The City has a centralized Risk and Employee Benefit Management Division within the Office of Human Resources that provides direction, management, coordination and planning services for risk, insurance and employee benefit programs. The risk management effort covers significant loss exposures, applies effective and reasonable risk controls and suggests funding arrangements for both insured and self-funded risks to ensure that the financial integrity of the City is not impaired after a loss.

The Risk and Employee Benefit Management Division also provides administrative and management services in the areas of health and welfare benefits, tort liability, workers' compensation, occupational health, loss control and safety, emergency preparedness, contract review and property insurance. Additional information on the City of Saint Paul's risk management activities can be found in Note VIII. C. of the notes to the financial statements.

AWARDS AND ACKNOWLEDGMENTS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Saint Paul, Minnesota for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended December 31, 2004. This was the 29th consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently-organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

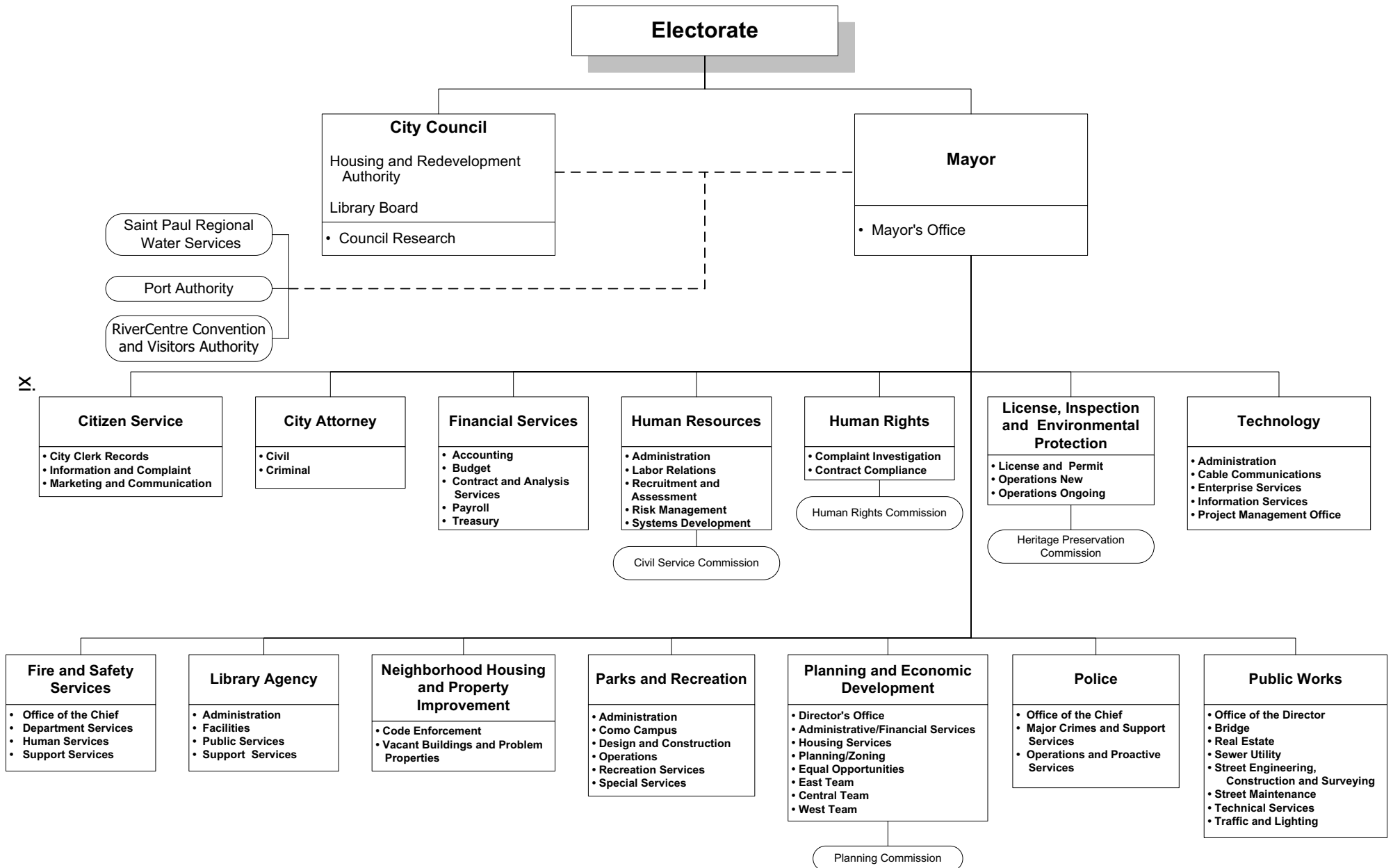
The preparation of the 2005 Comprehensive Annual Financial Report was accomplished through the combined efforts of the Office of Financial Services' accounting staff and departmental accountants. The State Auditor's cooperation in scheduling staff to review statements as they were prepared was very helpful and appreciated.

Cordially,



Matt Smith, Director
Office of Financial Services

City of Saint Paul, Minnesota Organizational Chart



City of Saint Paul, Minnesota
Elected and Appointed Officials
As of December 31, 2005

Elected Officials

Office	Name	Term Expires
Mayor	Randy C. Kelly Christopher B. Coleman	January 1, 2006 January 1, 2010
Councilmember—Ward 1	Debbie Montgomery	January 1, 2008
Councilmember—Ward 2	Dave Thune	January 1, 2008
Councilmember—Ward 3	Patrick Harris	January 1, 2008
Councilmember—Ward 4	Jay Benanav	January 1, 2008
Councilmember—Ward 5	Lee Helgen	January 1, 2008
Councilmember—Ward 6	Kathy Lantry	January 1, 2008

Appointed Officials

Department/Division/Office	Director's Name	Term Expires
Citizen Services	Shari Moore	*
City Attorney	Manuel Cervantes	*
Financial Services	Matt Smith	*
Fire and Safety Services	Douglas Holton	August 18, 2009
Human Rights	Tyrone Terrill	*
Human Resources	Angela Nalezny	*
Library Agency	Kathleen Flynn (Interim)	*
License, Inspection and Environmental Protection	Janeen Rosas	*
Mayor's Chief of Staff	Dennis Flaherty	*
Neighborhood Housing and Property Improvement	Andy Dawkins	*
Parks and Recreation	Bob Bierscheid	*
Planning and Economic Development	Susan Kimberly	*
Police	John Harrington	June 30, 2010
Public Works	Bob Sandquist	*
Technology	Karen Johnson	*
Saint Paul Regional Water Services	Stephen Schneider	*

New Officials Appointed by Mayor Coleman

Department/Division/Office	Director's Name	Term Expires
City Attorney	John Choi	*
Library Agency	Melanie Huggins	*
License, Inspection and Environmental Protection	Bob Kessler	*
Mayor's Chief of Staff	Ann Mulholland	*
Neighborhood Housing and Property Improvement	Bob Kessler	*
Planning and Economic Development	Cecile Bedor	*
Public Works	Bruce Beese	*
Technology	Andrea Casselton	*

* Serves at the pleasure of the Mayor

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Saint Paul,
Minnesota

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

CITY OF SAINT PAUL
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL
SECTION



PATRICIA ANDERSON
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

The Honorable Christopher B. Coleman, Mayor,
and Members of the City Council
City of Saint Paul, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul, Minnesota, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Saint Paul RiverCentre Convention and Visitors Authority, which represent 1 percent and 16 percent, respectively, and the Port Authority of the City of Saint Paul, which represent 31 percent and 22 percent, respectively, of the assets and program revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Saint Paul RiverCentre Convention and Visitors Authority and the Port Authority of the City of Saint Paul, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Saint Paul RiverCentre Convention and Visitors Authority were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Saint Paul as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note III. C. to the financial statements, the City of Saint Paul changed its reporting entity. The Saint Paul RiverCentre Convention and Visitors Authority was created during the year ended December 31, 2005, and is a discretely presented component unit of the City of Saint Paul.

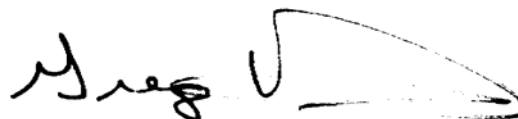
The Management's Discussion and Analysis and the required supplementary information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Saint Paul's basic financial statements. The supplementary information and the other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we are also issuing a report dated June 23, 2006, on our consideration of the City of Saint Paul's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. It does not include the Saint Paul RiverCentre Convention and Visitors Authority or the Port Authority of the City of Saint Paul, which were audited by other auditors.



PATRICIA ANDERSON
STATE AUDITOR



GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

End of Fieldwork: June 23, 2006

CITY OF SAINT PAUL
COMPREHENSIVE ANNUAL FINANCIAL REPORT

FINANCIAL SECTION

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

As management of the City of Saint Paul, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the City's financial statements and the additional information that we have furnished in our letter of transmittal, which can be found on pages v-x of this report.

FINANCIAL HIGHLIGHTS

- The assets of the City of Saint Paul exceeded its liabilities at the close of the most recent fiscal year by \$1,246.1 million (*net assets*). Of this amount, \$122.3 million (*unrestricted net assets*) may be used to meet the government's obligations to citizens and creditors; \$39.6 million is restricted for specific purposes and \$1,084.2 million is invested in capital assets net of related debt. The total net assets include all major infrastructure networks.
- The City's total net assets decreased by \$7.3 million. Governmental activities decreased by \$16.9 million, whereas business-type activities increased by \$9.5 million.
- The City of Saint Paul's governmental funds reported combined ending fund balances of \$190.2 million, a decrease of \$27.1 million in comparison with the prior year. Approximately 84.3% of this amount, \$160.3 million, is unreserved and available for use within the City's designations and policies.
- The City adopted a fund balance policy for the General and General Debt Service Funds. The policy established specific goals and guidance for future decisions regarding the appropriate level and use of fund balance. The General Fund balance should be maintained at 15% of the next year's planned budget for the General Fund and part of the Library Agency Fund which is financed by property taxes and local government aid. The General Debt Service fund balance should maintain an amount equal to the first half of the subsequent year's debt service, plus 7.5%, in addition to any reserves required by bond indentures, covenants, ordinances, other debt obligations and any net unrealized gains or losses associated with the fair value of investments.
- At the end of the fiscal year, fund balance for the General Fund was \$27.3 million or 15.1% of the budgeted 2006 General Fund expenditures of \$166.8 million plus four Library Agency activities expenditures of \$13.5 million.
- At the end of the fiscal year, fund balance for the General Debt Service Fund was \$24.2 million or 107% of the 2006 budgeted annual debt service payments, which includes principal and interest of \$22.6 million.
- The City's total long-term bonds and notes decreased by \$2.1 million, a 0.4% decrease from 2004 for a total outstanding on December 31, 2005 of \$557.7 million.
- In October 2005, the RiverCentre Authority, whose operating fund was reported as a major enterprise fund of the City of Saint Paul, merged with the Saint Paul Convention and Visitors Bureau and the Saint Paul Convention and Visitors Bureau Foundation. This combined organization has been renamed the Saint Paul RiverCentre Convention & Visitors Authority (RVCA). In accordance with Governmental Accounting Standards Board (GASB) Statement No 14 – *The Financial Reporting Entity*, it has been determined that the new RCVA should be reported as a discretely presented component unit.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure.

The *Statement of Activities* presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, sanitation, health, culture and recreation, and housing and economic development. The business-type activities of the City of Saint Paul include sewer; development loan programs; parking; parks, recreation and athletics; impound lot; and printing.

The government-wide financial statements include not only the City of Saint Paul itself (known as the primary government), but also Saint Paul RiverCentre Convention & Visitors Authority (RCVA), Saint Paul Regional Water Services (SPRWS) and Port Authority of the City of Saint Paul, which are separate legal entities for which the City of Saint Paul is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The Housing and Redevelopment Authority of the City of Saint Paul (HRA) and the Saint Paul Library Agency, although legally separate, function for all practical purposes as departments of the City of Saint Paul; and therefore, have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 25-27 of this report.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 51 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General, Library Agency, HRA General, General Debt Service, HRA General Debt Service and Capital Improvement Projects funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 28-34 of this report.

Proprietary Funds – The City maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Sewer Utility, HRA Loan Enterprise, HRA Parking, Special Services, Rice and Arlington Sports Dome, Watergate Marina, Impounding Lot and RiverPrint Saint Paul/Ramsey County activities. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for City Attorney-Outside Services, Risk Management Retention, Internal Borrowing, Purchasing's Value Added Services, Real Estate Management, Information Systems, City-Wide Data Processing, Equipment Services Fire-Police, Public Works Engineering, Public Works Traffic, Signal and Lighting Maintenance, Asphalt Plant, Public Works Equipment, Public Works Administration, Parks and Recreation Special Projects, Parks and Recreation Supply and Maintenance, and Planning and Economic Development Administration. The services provided by these funds predominately benefit the governmental rather than the business-type functions. They have been included within governmental activities in the government-wide financial statements.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Sewer Utility, HRA Loan Enterprise and HRA Parking funds, since they are considered to be major funds of the City. Data from the other enterprise funds are combined into a single aggregated presentation. All internal service funds are combined into a separate single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 35-41 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 43 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 47-138 of this report.

Other Supplementary Information

In addition to the basic financial statements and accompanying notes, *Required Supplementary Information*, presents a detailed budgetary comparison schedule for the General Fund, Library Agency and the HRA General Fund to demonstrate compliance with the budget. These schedules can be found on pages 139-142 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds, proprietary funds, internal service funds and other information related to the individual funds are presented immediately following the required supplementary information. Combining and individual statements and schedules can be found on pages 148-204 of this report.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

The analysis of the City's financial position begins with a review of the *Statement of Net Assets* and the *Statement of Changes in Net Assets*. These two statements report the City's net assets and changes therein. It should be noted that the financial position can also be affected by non-financial factors, including economic conditions, population growth and new regulations. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Saint Paul, assets exceeded liabilities by \$1,246.1 million as of December 31, 2005. The City is able to report positive balances in all categories of net assets, for the government as a whole, as well as for its separate categories – governmental and business-type activities.

CONDENSED STATEMENT OF NET ASSETS

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2005	2004	2005	2004	2005	2004	
Current and Other Assets	\$ 458,035	\$ 478,940	\$ 162,649	\$ 144,101	\$ 620,684	\$ 623,041	(0.38)%
Capital Assets	1,096,618	1,083,605	351,795	358,716	1,448,413	1,442,321	0.42%
Total Assets	\$1,554,653	\$1,562,545	\$ 514,444	\$ 502,817	\$2,069,097	\$2,065,362	0.18%
Long-Term Liabilities	\$ 462,648	\$ 465,424	\$ 159,615	\$ 158,188	\$ 622,263	\$ 623,612	(0.22)%
Other Liabilities	190,959	179,250	9,759	8,628	200,718	187,878	6.83%
Total Liabilities	\$ 653,607	\$ 644,674	\$ 169,374	\$ 166,816	\$ 822,981	\$ 811,490	1.42%
Net Assets:							
Invested in Capital Assets, Net of Related Debt	\$ 844,290	\$ 825,608	\$ 239,913	\$ 238,809	\$1,084,203	\$1,064,417	1.86%
Restricted	16,618	15,834	22,967	16,105	39,585	31,939	23.94%
Unrestricted	40,138	76,429	82,190	81,087	122,328	157,516	(22.34)%
Total Net Assets	\$ 901,046	\$ 917,871	\$ 345,070	\$ 336,001	\$1,246,116	\$1,253,872	(0.62)%

The largest portion of the City's net assets, \$1,084.2 million (approximately 87%), reflects its investments in capital assets (e.g., land, building, improvements, equipment, infrastructure, and construction in progress), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$39.6 million (approximately 3.2%), represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets, \$122.3 million, may be used to meet the government's ongoing obligation to citizens and creditors.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Analysis of the City's Operations – The following table provides a summary of the City's operations for the year ended December 31, 2005. Governmental activities decreased the City of Saint Paul's net assets by \$16.9 million. Business-type activities increased the City's net assets by \$9.5 million.

CONDENSED STATEMENT OF CHANGES IN NET ASSETS (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2005	2004	2005	2004	2005	2004	
Revenues:							
Program Revenues							
Charges for Services	\$ 88,124	\$ 78,391	\$ 66,035	\$ 68,966	\$ 154,159	\$ 147,357	4.62%
Operating Grants and Contributions	32,976	33,841	488	1,520	33,464	35,361	(5.36)%
Capital Grants and Contributions	26,385	31,801	900	1,445	27,285	33,246	(17.93)%
General Revenues							
Property Taxes	71,859	69,522	1,372	1,220	73,231	70,742	3.52%
City Sales Tax	14,220	13,753	-	-	14,220	13,753	3.40%
Franchise Fees and Other Taxes	24,427	23,786	-	-	24,427	23,786	2.69%
Local Government Aid	53,206	56,713	-	-	53,206	56,713	(6.18)%
Grants and Contributions Not Restricted	10,569	14,254	-	-	10,569	14,254	(25.85)%
Investment Income	10,662	8,188	1,848	1,073	12,510	9,261	35.08%
Miscellaneous	5,551	5,095	626	125	6,177	5,220	18.33%
Total Revenues	<u>\$ 337,979</u>	<u>\$ 335,344</u>	<u>\$ 71,269</u>	<u>\$ 74,349</u>	<u>\$ 409,248</u>	<u>\$ 409,693</u>	(0.11)%

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

CONDENSED STATEMENT OF CHANGES IN NET ASSETS (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2005	2004	2005	2004	2005	2004	
Expenses:							
General Government	\$ 32,569	\$ 33,153	\$ -	\$ -	\$ 32,569	\$ 33,153	(1.76)%
Public Safety	126,073	119,288	-	-	126,073	119,288	5.69%
Highway and Streets	52,527	53,988	-	-	52,527	53,988	(2.71)%
Sanitation	12,444	8,482	-	-	12,444	8,482	46.71%
Health	3,892	3,674	-	-	3,892	3,674	5.93%
Culture and Recreation	66,028	56,896	-	-	66,028	56,896	16.05%
Housing and Economic Development	44,280	33,805	-	-	44,280	33,805	30.99%
Interest and Fiscal Charges	26,161	23,052	-	-	26,161	23,052	13.49%
Convention Facility	-	-	-	7,548	-	7,548	(100.00)%
Sewer	-	-	25,293	27,104	25,293	27,104	(6.68)%
Development Loan Programs	-	-	7,117	11,244	7,117	11,244	(36.70)%
Parking	-	-	10,508	10,725	10,508	10,725	(2.02)%
Parks, Recreation and Athletics	-	-	5,996	4,996	5,996	4,996	20.02%
Impound Lot	-	-	2,479	1,973	2,479	1,973	25.65%
Printing	-	-	1,231	1,243	1,231	1,243	(0.97)%
Total Expenses	\$ 363,974	\$ 332,338	\$ 52,624	\$ 64,833	\$ 416,598	\$ 397,171	4.89%
Increases in Net Assets before Transfers	\$ (25,995)	\$ 3,006	\$ 18,645	\$ 9,516	\$ (7,350)	\$ 12,522	(158.70)%
Transfers	9,127	(4,161)	(9,127)	4,161	-	-	
Change in Net Assets	\$ (16,868)	\$ (1,155)	\$ 9,518	\$ 13,677	\$ (7,350)	\$ 12,522	(158.70)%
Net Assets - January 1, As Restated (Note III.C)	\$ 917,914	\$ 919,026	\$ 335,552	\$ 322,324	\$1,253,466	\$1,241,350	0.98%
Net Assets - December 31	\$ 901,046	\$ 917,871	\$ 345,070	\$ 336,001	\$1,246,116	\$1,253,872	(0.62)%

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Governmental Activities

Governmental activities decreased the City's net assets by \$16.9 million. Revenues were stable, increasing by \$2.6 million, which is less than one percent. Transfers In increased by \$13.3 million and expenses increased by \$31.6 million, or 9.5% compared to the previous year.

Three governmental functions contributed to the majority of the increase in expenses: public safety, \$6.8 million; culture and recreation, \$9.1 million; and housing and economic development, \$10.5 million.

Included in the increase in these expenses are:

- Salaries and fringe benefits paid to public safety personnel \$5.7 million
- Expenses in the parks department for 1) the opening of a new visitors center; 2) a new tree maintenance service provided to private property owners; and 3) increased expenses in the general operation of the parks and recreation centers \$2.2 million
- Construction of a building for the Neighborhood House, a nonprofit entity \$5.0 million
- Community development block grant expenditures \$3.0 million
- Housing and development project expenditures \$7.0 million

Business -Type Activities

Business type activities had a positive result in 2005 and increased net assets by \$9.5 million. Revenues decreased by \$3.1 million, whereas, net transfers made to governmental activities increased by \$13.3 million and expenses decreased by \$12.2 million, providing a net decrease in the change of net assets of \$4.2 million as compared to the 2004 change in net assets.

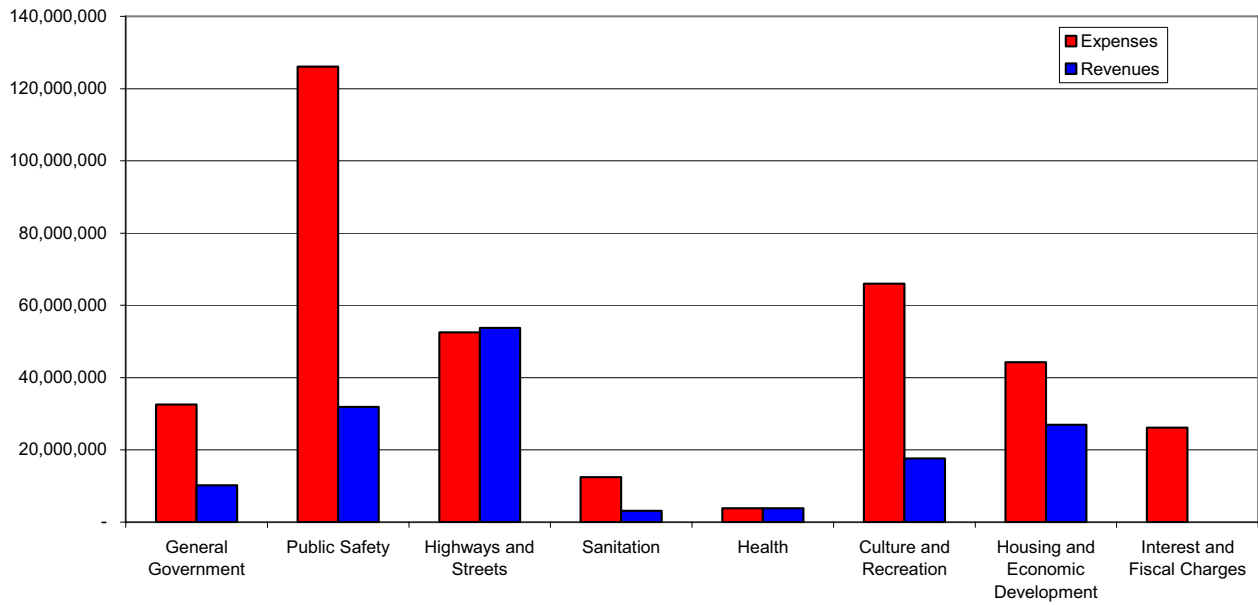
The majority of reduction in the business type revenues and expenses is due to the change in reporting entity of the RiverCentre Operating Enterprise fund to a discretely presented component unit. The 2004 fund's expenses reported as convention facility business activity was at \$7.6 million and the associated revenues were \$7.6 million. The development loan program expenses decreased in 2005 by \$4.1 million mainly due to decreasing expenses involving the Housing Land Assembly program which is part of the Housing 5000 Initiative completed in 2005.

CITY OF SAINT PAUL, MINNESOTA

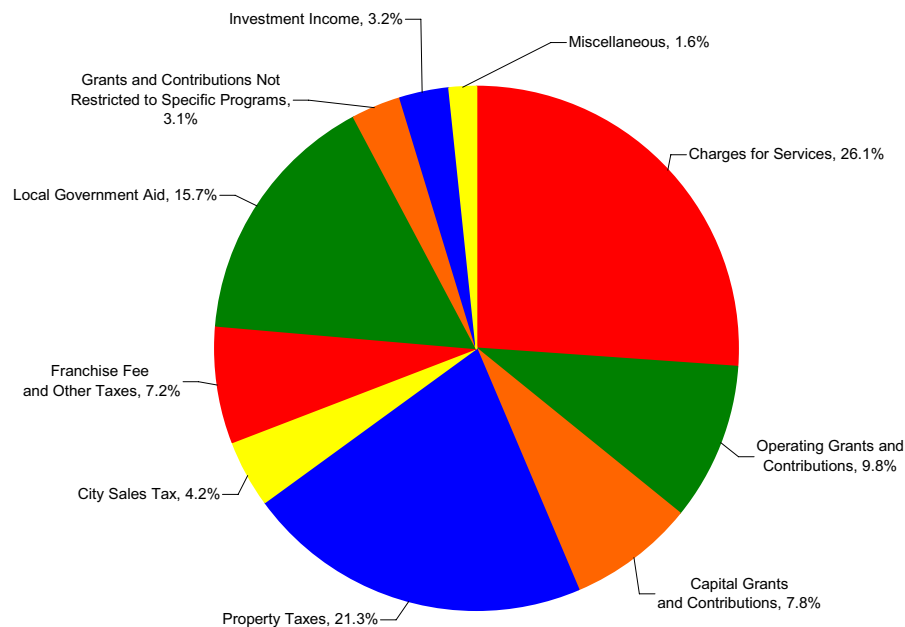
MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Expenses and Program Revenues – Governmental Activities



Revenue by Source – Governmental Activities

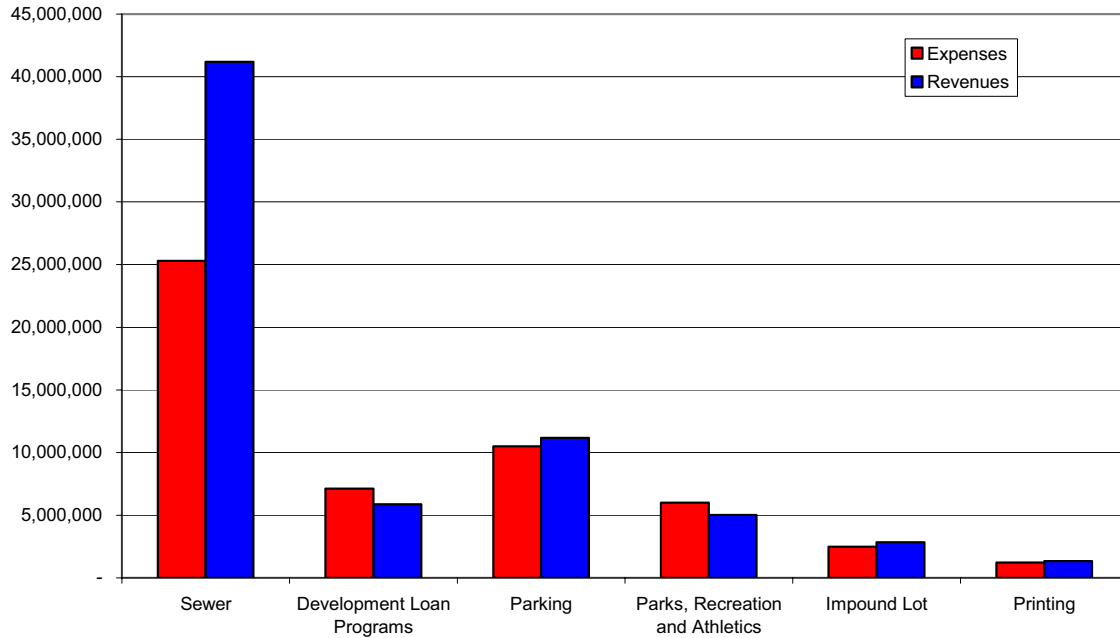


CITY OF SAINT PAUL, MINNESOTA

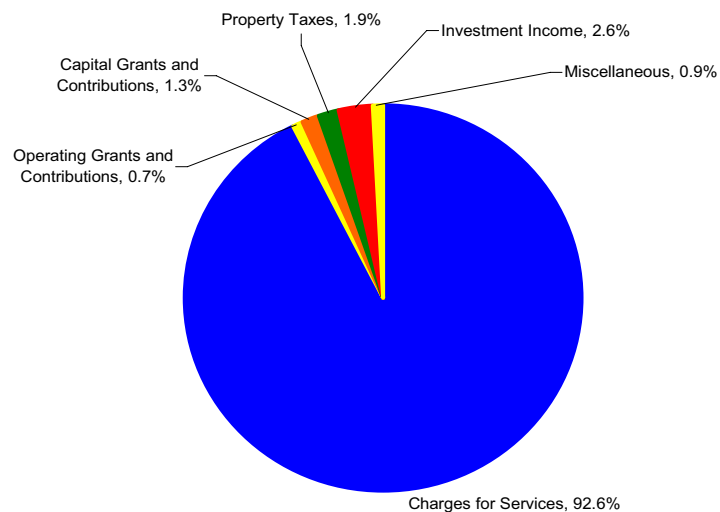
MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental Funds

The focus of the City of Saint Paul's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

At the end of current fiscal year, the City of Saint Paul's governmental funds reported combined ending fund balances of \$190.2 million. Approximately 84.3% of this total amount (\$160.3 million) constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for new spending, because it has already been committed to pay for:

	(in thousands)
Encumbrances	\$ 24,322
Imprest Funds	100
Advances to Other Funds	1,262
Advance to Component Unit	1,756
Long-Term Receivable	215
Mandatory 5% for Debt Retirement	1,155
Moral Obligation to Port Authority Hotel Bond	473
Revenue Shortfalls and Unforeseen Expenditures	564
Permanent Funds' Activities	35
	<u>\$ 29,882</u>

Of the \$160.3 million unreserved fund balance, the use is available for specific purposes in which these funds were collected.

	(in thousands)
General Fund	\$ 23,068
Special Revenue Funds	48,777
Debt Service Funds	59,554
Capital Projects Funds	28,852
Permanent Funds	28
	<u>28</u>
Total	<u>\$ 160,279</u>

General Fund: The General Fund is the primary operating fund of the City. Total fund balance as of December 31, 2005, was \$27.3 million, of which \$23.1 million was unreserved. It may be useful to compare unreserved fund balance to total fund balance and total fund expenditures as a measure of the fund's liquidity. Unreserved fund balance represents 84.6% of total fund balance and 16.6% of total 2005 fund expenditures including transfers out. The fund balance decreased by \$6.6 million during the current fiscal year. This was a planned spend-down designed to keep the City's property tax levy at a constant level.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The following tables provide an overview of General Fund revenues by source and expenditures by function.

Revenues by Source	2005	2004	Total Percent Change
Property Tax	\$ 42,990,712	\$ 39,235,087	9.57%
Franchise Fees and Other Taxes	19,382,849	18,821,974	2.98%
Intergovernmental	57,473,669	65,260,620	(11.93)%
Fees, Sales and Services	15,351,211	13,794,539	11.28%
Interest	6,388,142	4,492,961	42.18%
Miscellaneous	1,397,396	1,173,740	19.05%
Transfers In	13,381,951	10,101,003	32.48%
Capital Lease	1,000,000	1,008,250	(0.82)%
Total	<u>\$ 157,365,930</u>	<u>\$ 153,888,174</u>	2.26%

Overall, General Fund revenues have increased by \$3.5 million or 2.26% as compared to 2004. In 2005, property tax revenue has increased by \$3.8 million. The General Fund's portion of the levy was increased by \$3.2 million, which represents 72.9% of the total levy. The total property tax levy of \$63.9 million is allocated between the General, General Debt and Library Agency Funds. The levy has been held constant for twelve consecutive years as a strategy to hold down property taxes and draw down fund balance from historically high levels of previous years. Also, additional property tax revenue was received from the decertification of a tax increment district. Franchise fees increased 3.0% due to increased electric usage within the City.

Intergovernmental revenue decreased by \$7.8 million. Local Government Aid (LGA) from the State of Minnesota was reduced by an additional \$3 million due to state budget decisions. The total LGA reduction beginning in 2003 has been \$22.6 million. Also, \$2.9 million of revenue from district court parking fines were deposited directly in the Parking Meter Collections Special Revenue Fund.

Fees, sales and services increased by \$1.6 million. Approximately \$1 million was generated in additional paramedic transport fees. The transport rate was increased by 10% from \$922 in 2004 to \$1,014 in 2005. Also, an additional \$150,000 was collected in continuance for dismissal fees through the City Attorney's office and approximately \$300,000 for Police special services.

Interest earnings increasing by \$1.9 million is mainly associated with security lending transactions. Interest earnings on the collateral received are reported on the operating statement as Interest Earned on Securities Lending. The costs of securities lending transactions are not netted with interest revenue. Borrower rebates are reported on the operating statement as Interest Expenditures on Securities Lending and the bank fees are included in Miscellaneous-Other Expenditures. For fiscal year 2005 net revenue from securities lending transactions was \$60,145.

Transfers In increased by \$3.3 million. An additional \$2.1 million was transferred from Special Revenue Funds, \$800,000 from the Capital Project Funds, and \$400,000 from Enterprise Funds.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Expenditures by Function	2005	2004	Total Percent Change
General Government	\$ 20,387,754	\$ 19,934,450	2.27%
Public Safety	105,122,677	99,914,402	5.21%
Highways and Streets	2,096,092	4,960,920	(57.75)%
Culture and Recreation	22,643,432	22,005,540	2.90%
Housing and Economic Development	78,483	84,358	(6.96)%
Miscellaneous	5,734,053	6,025,438	(4.84)%
Debt	5,078,423	2,754,725	84.35%
Transfers Out	2,810,644	2,212,855	27.01%
Total	<u>\$ 163,951,558</u>	<u>\$ 157,892,688</u>	3.84%

Total General Fund expenditures increased by \$6.1 million or 3.84% as compared to 2004. The majority of increases occurred in salary and fringe benefit expenditures. An additional \$2.7 million or 2.9% was spent for salaries and \$2.7 million or 9.2% was spent in fringe benefits. The increase in debt of \$2.3 million, or 27.0% was caused by an increase in securities lending transactions, as explained in the revenue analysis.

General Government expenditures increased by \$453,000 or 2.27%. The Office of Technology upgraded the City's standard desktop software to MS Office. Public Safety expenditures have increased by \$5.2 million, \$3.6 million in Police expenditures and \$1.6 million in Fire expenditures. The increases relate to salary and fringe costs associated with negotiated salary settlements. The Police department's budget authorized six additional police officers and three telecommunicators in the emergency communications center. Fire and Safety Services budget added five entry level fire fighter positions. Highways and Streets expenditures decreased by \$2.9 million. In 2005, the costs for street lighting maintenance was moved to the Right of Way Maintenance Special Revenue Fund and financed by assessment revenue. Culture and Recreation expenditures increased by \$638,000 mainly due to increased utility costs. Transfers Out increased by approximately \$600,000. \$350,000 is associated with the additional transfer from Police fleet operations to the Revenue Notes and Other Long-Term Debt Service Fund for the repayment of the second year of the vehicle capital lease. A transfer of \$163,000 was made to write off the advance made to the Rice and Arlington Sports Dome Enterprise Fund, which is being closed out.

Library Agency Fund: The City's Library Agency Fund accounts for the general operations of the Saint Paul Public Library. The purpose of separating the Library from the General Fund was to increase its visibility within the community. Revenues to support the agency are from property taxes, local government aid and market value homestead credit. Revenues reported in this fund totaled \$14.4 million with expenditures and transfers out of \$14 million, which reflects and increase in fund balance of \$378,280. The fund is reporting a fund balance on December 31, 2005, of \$1.3 million.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

HRA General Fund: The HRA General Fund is the chief operating fund of the HRA. Revenues include the HRA property tax levy, fees from conduit revenue bond issues, property rentals, land sale proceeds and investment earnings. The major spending activities are for staff administration of HRA programs, maintenance of HRA properties and professional services for HRA programs and projects. The fund balance in the HRA General Fund increased during 2005 by \$2.8 million to a total of \$8.1 million at December 31, 2005. The increase was primarily due to revenues from the sale of the 1000 Westgate development property in 2005.

General Debt Service Fund: The City's General Debt Service Fund accounts for the revenues and expenditures relating to the City's general obligation debt that is supported by property tax revenues. During 2005, \$7.2 million was received in taxes and \$13.2 million in transfers for a total of \$20.4 million. The expenditures made on debt payments during 2005 totaled \$22.3 million resulting in a planned decrease in fund balance of \$1.4 million. The remaining fund balance of \$24.1 million at the end of the fiscal year is to be used for future debt service payments.

HRA General Debt Service Fund: The HRA General Debt Service Fund accumulates resources and pays debt service for the HRA debt that is not financed by its two enterprise funds. Debt service on the bonds is financed by property tax increments, City sales taxes, lease payments from the City and investment earnings. At December 31, 2005, the fund balance was \$19.5 million, which is reserved for future debt service. Total debt spending during 2005 was \$21.2 million. The total fund balance decreased in 2005 by \$6.1 million primarily due to the retirement of tax increment revenue bonds with existing funds and the decertification of tax increment financing districts resulting in existing funds being remitted to Ramsey County for subsequent disbursement to the City, County and St. Paul School District.

Capital Improvement Projects Fund: The City's Capital Improvement Projects Fund accounts for the major capital improvement projects relating to City-owned capital assets. Total expenditures reported by this fund in 2005 were \$59.2 million. The fund reported reserves for existing contracts of \$16.1 million. The total fund balance at December 31, 2005 was a negative \$5.1 million. The negative fund balance will be resolved as money is received for capital projects financed by grants upon their completion. The City's Residential Street Vitality Program, Sewer Rehabilitation, Phalen Boulevard Project, Paul and Sheila Wellstone Center and the construction of Fire Station No. 8 were among the projects with the largest amount of expenditures in 2005.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Proprietary Funds

The City of Saint Paul's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Sewer Utility Fund: The Sewer Utility Enterprise Fund had another year of strong performance in 2005, with an unrestricted net asset balance of \$22.6 million at December 31, 2005. Operating cash is being maintained in the \$24-\$26 million range. Revenues continue their consistent trend with a one and a half percent (1.5%) increase in both storm and sanitary rates, which was recommended by the Mayor and adopted by the City Council in late 2005 for implementation January 1, 2006.

In the next couple of years the Sewer Utility Enterprise Fund anticipates a decrease in unrestricted net assets as a result of the Ford Motor Plant closing, implementation of an Inflow / Infiltration program, major reconstruction of storm sewer tunnels, and other construction repair work.

HRA Loan Enterprise Fund: The HRA Loan Enterprise Fund accounts for loans issued and related servicing for various housing and economic development programs and projects. The Fund has unrestricted net assets totaling \$48.5 million at December 31, 2005. The assets of the Fund include loans receivable, which are reported at \$21.6 million (net of allowance) and, in many cases, have long repayment terms before there will be liquidation to cash. Cash and investments are reported at \$47.6 million at December 31, 2005, which includes the Housing 5000 Land Assembly Bond program of \$24.2 million. The Fund had an operating loss in 2005 of \$570,000.

HRA Parking Fund: The HRA Parking Fund accounts for the operation of HRA-owned parking facilities in Saint Paul. The Fund had unrestricted net assets of \$11.4 million at December 31, 2005. Assets in the Fund include capital assets for parking facilities reported at the depreciated amount of \$85.2 million. Long-term debt used for financing the construction of the parking facilities is \$103.9 million in principal outstanding at December 31, 2005. The Fund had operating income of \$4.3 million during 2005. After interest on long-term debt and other nonoperating revenues and expenses are applied, the Fund had a net income of \$365,000.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended budget for the General Fund includes the original adopted budget, plus any previously appropriated funds set aside for the purpose of honoring legally-incurred obligations (prior year encumbrances and commitments), plus any additional supplemental appropriations that were legislated by City Council during the year. The total original adopted budget including transfers out was \$158.3 million, plus reserved for encumbrances carried forward of \$2.1 million, for total original appropriations of \$160.4 million. This compared to final appropriations of \$167.6 million, is \$7.2 million greater than the original budget. The 2005 final General Fund appropriations are \$5.3 million more than 2004 final appropriations of \$162.3 million.

The majority of the difference between the adopted and final budget was related to the following items:

- \$4.1 million additional interest expense relating to security lending transactions which was offset by interest earnings of \$4.2 million.
- \$1.7 million year end adjustment, recognizing increased tax increment revenue from a decertified district, fees, police and fire pension and disability aid and interest revenues to cover additional costs associated with termination and tort liability settlements, police overtime, utility and motor fuel costs and summary nuisance abatement activity.
- \$1 million increase in capital outlay to account for the capital lease for Police vehicles.

2005 actual spending including transfers out was \$163.9 million, as compared to final budget of \$167.6 million resulted in a \$3.7 million positive variance. Actual expenditures were 97.8% of the final budgeted amount. Over the past ten years, the City's actual expenditures compared to budget have averaged 96.3%.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

CAPITAL ASSETS

At the end of 2005, the City had invested a total of \$1,448.4 million in capital assets (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress of the City, including the capital assets recorded for the City's internal service funds which have a depreciated value of \$10.5 million.

Major capital asset events during the current fiscal year included the following:

Public Works completed its tenth year of the Residential Street Vitality Program (RSVP) by completing the Edmund/Galtier project during 2005 in the amount of \$1.9 million. In addition, two projects that will span 2005 and 2006 were begun. These projects are the Arlington/Pascal RSVP in the amount of \$9.1 million and the Baker/Bellows RSVP in the amount of \$4.8 million.

The Sewer System Rehabilitation program is now in its eighth year. The City awarded contracts for the State/University Sewer Relining in the amount of \$1.2 million, the Citywide Sewer Relining project in the amount of \$1.2 million, the Summit/Wheeler Sewer Relining project in the amount of \$1.3 and the Eastside Sewer Relining project in the amount of \$1.0 million. All projects have an estimated completion date of November 30, 2006.

Public Works substantially completed the construction of the second phase of Phalen Boulevard in 2005. Construction of the third phase of Phalen Boulevard was started in 2005 with completion expected in 2006.

The Saint Paul Public Library Agency sold its first bond issue in the spring of 2004 in the amount of \$12,280,000. The issue included \$9.3 million for the construction of a new library at Dale Street and University Avenue to replace the existing Lexington Outreach Library. Completion of the new library is scheduled for June of 2006.

Upper Landing Park, a \$2.9 million improvement on the banks of the Mississippi was completed in 2005. Features of the park include a large lawn area, fountains, sculptures, sitting walls and direct connections to the river's edge.

Wacouta Commons, a new neighborhood park on the northern edge of downtown was opened. The park includes a play area, a lawn for field play, a fountain, gardens and a dog walking area.

Construction continues on the Tropical Encounters Exhibit in the Como Park Visitor's Center. This \$2.5 million project will create an environment where plants and animals can co-exist together in their native habitat and is scheduled to open to the public in the fall of 2006.

Fire Station No. 8 was substantially completed during 2005 at a cost of \$4.0 million. The fire station is housed in the new State of Minnesota Human Services Building and is expected to be occupied by May of 2006.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

CAPITAL ASSETS

CAPITAL ASSETS AT YEAR-END NET OF ACCUMULATED DEPRECIATION (in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2005	2004	2005	2004	2005	2004	
Land	\$ 138,804	\$ 138,198	\$ 23,061	\$ 22,956	\$ 161,865	\$ 161,154	0.44%
Buildings	376,237	373,258	68,032	72,889	444,269	446,147	(0.42)%
Improvements other than Buildings	61,077	58,485	-	-	61,077	58,485	4.43%
Public Improvements	-	-	256,149	259,501	256,149	259,501	(1.29)%
Equipment	24,175	25,578	2,302	968	26,477	26,546	(0.26)%
Infrastructure	473,999	443,468	-	-	473,999	443,468	6.88%
Construction in Progress	22,326	44,618	2,251	918	24,577	45,536	(46.03)%
Total	<u>\$ 1,096,618</u>	<u>\$ 1,083,605</u>	<u>\$ 351,795</u>	<u>\$ 357,232</u>	<u>\$ 1,448,413</u>	<u>\$ 1,440,837</u>	0.53%

Additional information on the City of Saint Paul's capital assets can be found in Note VI.E. on pages 89-90 of this report.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

LONG-TERM OBLIGATIONS

During 2005, the City issued \$65.1 million in bonds and retired/defeased \$56.4 million in bonds, resulting in \$485.4 million in bonds payable and \$72.3 million in notes payable at the end of 2005. Of the bonded debt, \$119.2 million is considered to be gross direct general property tax supported debt; considering the \$24.2 million available in the General Debt Service Fund, the net general property tax supported debt at year end was \$95 million or \$330 per capita.

The City's General Obligation bonds issued in 2005 continued their Aa2 rating from Moody's Investors Service, Inc., with a positive outlook, and AAA rating from Standard & Poor's Corporation. The City's Recreational Facilities Gross Revenue bonds were rated Aa3 by Moody's and AA by Standard & Poor's. The HRA General Obligation Tax Increment Revenue Refunding bonds for Midway Marketplace were rated AAA by Standard & Poor's and Aa2 by Moody's. The HRA Tax Increment Scattered Sites Revenue bonds were insured by Radian and rated Aa3 by Moody's. The HRA Parking Facilities Revenue bonds for Smith Avenue Transit Center were rated AA+ by Standard & Poor's. The HRA Parking Revenue Lowertown Refunding bonds were insured by FSA and rated AAA by both Moody's and Standard & Poor's.

OUTSTANDING DEBT GENERAL OBLIGATION, REVENUE, LEASE REVENUE AND SALES TAX NOTES AND BONDS (in thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percent Change
	2005	2004	2005	2004	2005	2004	
General Obligation Bonds	\$ 159,285	\$ 159,390	\$ 39,485	\$ 40,815	\$ 198,770	\$ 200,205	(0.72)%
Revenue Bonds	-	-	27,690	29,760	27,690	29,760	(6.96)%
Sales Tax Revenue Bonds	67,750	68,900	-	-	67,750	68,900	(1.67)%
HRA Tax Increment Revenue Bonds	62,170	59,026	-	-	62,170	59,026	5.33%
HRA Parking Facilities Revenue Bonds	-	-	55,420	40,715	55,420	40,715	36.12%
HRA Loan Enterprise Revenue Bonds	-	-	21,830	25,000	21,830	25,000	(12.68)%
HRA Sales Tax Revenue Bonds	44,895	46,115	-	-	44,895	46,115	(2.65)%
HRA Lease Revenue Bonds	6,870	6,920	-	-	6,870	6,920	(0.72)%
Revenue Notes	44,844	46,552	15,825	16,709	60,669	63,261	(4.10)%
HRA Revenue Notes	8,580	14,870	3,090	5,084	11,670	19,954	(41.52)%
Total	<u>\$ 394,394</u>	<u>\$ 401,773</u>	<u>\$ 163,340</u>	<u>\$ 158,083</u>	<u>\$ 557,734</u>	<u>\$ 559,856</u>	(0.38)%

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS For Year Ended December 31, 2005

CURRENTLY KNOWN FACTS/ECONOMIC CONDITIONS

Financial Outlook

The City's budget, and in particular the General, Library Agency and General Debt Service funds, remain heavily influenced by state budget decisions of previous years to reduce Local Government Aid payments, and subsequent City budget management decisions which, to date, have not completely restored an ongoing balance between annual operating revenues and expenditures.

State aid payments are an important component of the City's General Fund budget. In the 2006 adopted budget, state aid including Local Government Aid (LGA—the largest program), is the single largest financing source at over 38% of the total (by comparison, property taxes provide 26% of financing in 2006). In the 2003 legislative session, the state resolved its budget deficit in part by reducing aid payments to local governments. In Saint Paul, this had the effect of reducing LGA payments for 2006 by 21.8% (\$16.6 million) below the originally-certified 2003 level.

While the City made significant mid-year spending adjustments in 2003 (including elimination of approximately 139 budgeted positions) that carried forward into the 2004 budget year, permanent revenue and spending adjustments have not completely offset the loss of state aid payments. While the 2006 adopted budget uses no financing from the General Fund fund balance (consistent with the City's newly-adopted fund balance policy), it does rely considerably on one-time financing and transfers from a number of other sources.

The 2005 and 2006 sessions of the Minnesota Legislature adjourned without any action to restore the state aid cuts enacted in 2003. The major task that will confront the City over the next several years will be to find a combination of permanent revenue and spending adjustments necessary to adapt to what likely will be permanently-reduced levels of financial assistance from the state.

Employment Outlook

The 2005 annual average unemployment rate for the City of Saint Paul was reported by the Minnesota Department of Employment and Economic Development at 4.4%. This compares to a state unemployment rate of 4% and a U.S. average rate of 5.1%. Saint Paul has a balanced, diversified employment base with no single industry sector dominating. Education and Health Services, Professional and Business Services, and Trade, Transportation and Utilities, and Government (local, state and federal combined) each supplied more than 10% of total employment in 2005.

The third quarter 2005 annual average wage in Saint Paul was \$43,784, compared to \$46,696 in the metro area and \$41,028 in Minnesota.

CITY OF SAINT PAUL, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS

For Year Ended December 31, 2005

REQUESTS FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with general overview of the City's finances. If you have questions about this report or need any additional information, contact the Office of Financial Services, Attn: Lori Lee, at 15 W. Kellogg Blvd., Room 700; Saint Paul, Minnesota 55102, call 651-266-8822, or e-mail lori.lee@ci.stpaul.mn.us.

General information relating to the City of Saint Paul, Minnesota, can be found at the City's website, www.ci.stpaul.mn.us.

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